

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Beverly Hills</u>	County Oakland
Audit Date June 30, 2004	Opinion Date September 20, 2004	Date Accountant Report Submitted To State: November 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State Michigan	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

Village of Beverly Hills Oakland County, Michigan

**Financial Report
with Supplementary Information
June 30, 2004**

Village of Beverly Hills, Michigan

Contents

Report Letter	I
Management's Discussion and Analysis	2-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Enterprise Fund - Water and Sewer:	
Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Funds:	
Statement of Net Assets	17
Statement of Changes in Net Assets	18
Notes to Financial Statements	19-39
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	40
Budgetary Comparison Schedule - Major Streets Fund	41
Budgetary Comparison Schedule - Local Streets Fund	42
Pension System Schedule of Funding Progress - Public Safety Officers' Retirement System	43

Village of Beverly Hills, Michigan

Contents (Continued)

Other Supplemental Information

Nonmajor governmental funds:	
Combining Balance Sheet	44-45
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	46-47

Independent Auditor's Report

To the Village Council
Village of Beverly Hills, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Beverly Hills as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Beverly Hills' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Beverly Hills as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Beverly Hills' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 20, 2004

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

Our discussion and analysis of the Village of Beverly Hills' (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State Shared Revenue – The Village realized an additional 7 percent loss in constitutional and statutory State Revenue Sharing. The decrease is primarily a result of a change in the 2000 census data and Executive Orders promulgated by Governors Engler and Granholm. The loss in State Revenue Sharing neutralized any gain in property tax revenues. State Revenue Sharing for next fiscal year could realize an additional 16.4 percent decrease.
- Water Main Replacement Project – In 2000, the Village conducted a study on the condition and age of its water mains. It was determined that the system required \$2.8 million in capital improvements in the short term. The Village has secured a \$3,690,000 Bond from the Drinking Water Revolving Fund (DWRP). The Village received bids from ten contractors and awarded a contract to the low bidder. Construction will start in September 2004 and is expected to be completed by October 2005.
- Acacia Park Drain – The Acacia Park Drain Relief Sewer Project is approaching completion. All pipes are installed and connected to the outlet. The contractor is currently working on pavement restoration at all affected intersections. Final sod restoration will follow.
- Ditch Cleaning – The Village has completed some ditch cleaning to provide better water runoff relief. This is expected to continue throughout next year.
- Beverly Park Improvements – Plans are currently being reviewed for pavilion upgrades. Funding will continue from the Dedicated Park Millage approved in 2001.
- The Village completed the Stafford under drain project as part of a special assessment district. Grant funds were obtained to address water quality issues in the Rouge River.
- The annual concrete repair program was completed in September 2004.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. The longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and tells whether the taxpayers have funded the full cost of providing services.

The Fund financial statements present a short-term view; they tell us how taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current assets	\$ 5,912	\$ 7,483	\$ 2,842	\$ 2,270	\$ 8,754	\$ 9,753
Noncurrent assets	8,468	8,286	15,151	13,073	23,619	21,359
Total assets	14,380	15,769	17,993	15,343	32,373	31,112
Current liabilities	990	1,239	798	693	1,788	1,932
Long-term liabilities	422	466	8,576	5,522	8,998	5,988
Total liabilities	1,412	1,705	9,374	6,215	10,786	7,920
Net assets:						
Invested in capital assets -						
Net of related debt	8,158	7,527	10,656	7,188	18,814	14,715
Restricted	2,049	3,543	-	-	2,049	3,543
Unrestricted	2,971	2,994	2,643	1,940	5,614	4,934
Total net assets	<u>\$ 13,178</u>	<u>\$ 14,064</u>	<u>\$ 13,299</u>	<u>\$ 9,128</u>	<u>\$ 26,477</u>	<u>\$ 23,192</u>

The Village's combined net assets increased 14.4 percent from a year ago – increasing from \$23,192,000 to \$26,531,000.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets – part of net assets that can be used to finance day-to-day operations – increased by approximately \$41,000 for the governmental activities. This represents an increase of approximately 1.4 percent. The current level of unrestricted net assets for our governmental activities stands at approximately \$3,035,000, or about 43.9 percent of expenditures.

The restricted portion of net assets decreased by approximately \$1,504,000 as a result of dedicated infrastructure collections less than project costs for the Acacia Park Drain.

The following table shows the changes of the net assets during the current year (in thousands of dollars). A comparison to the prior year is not available, since this is the Village's initial year of adopting GASB 34.

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 452	\$ 510	\$ 2,893	\$ 2,965	\$ 3,345	\$ 3,475
Operating grants and contributions	725	808	-	-	725	808
Capital grants and contributions	1,033	503	-	178	1,033	681
General revenue:						-
Property taxes	5,881	5,765	405	411	6,286	6,176
State-shared revenue	887	966	-	-	887	966
Unrestricted investment earnings	143	86	3	5	146	91
Miscellaneous	123	97	-	-	123	97
Total revenue	9,244	8,735	3,301	3,559	12,545	12,294
Program Expenses						
General government	955	943	-	-	955	943
Public safety	3,359	3,165	-	-	3,359	3,165
Public works	1,992	2,077	-	-	1,992	2,077
Community and economic development	184	62	-	-	184	62
Library	474	465	-	-	474	465
Water and sewer	-	-	2,296	3,005	2,296	3,005
Total program expenses	6,964	6,712	2,296	3,005	9,260	9,717
Transfers	(3,166)	9	3,166	(9)	-	-
Change in Net Assets	\$ (886)	\$ 2,032	\$ 4,171	\$ 545	\$ 3,285	\$ 2,577

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The Village's total governmental revenues increased by approximately \$508,000, despite decreases in state shared revenue and charges for services. The increase, which represents approximately 6 percent, can be attributed to several factors. Property tax revenues continued to steadily increase during the year. In addition, the Village received approximately \$978,000 in capital grants and contributions from the federal, county and local governments for the Acacia Drain and special assessment projects during the year.

The total cost of governmental activities increased by approximately \$197,000 during the year. Increases in health care premiums continue to be the largest increase by category. To offset this increase, the Village administration continues to amend health insurance coverage through its co-pays. The current contracts include a \$10/\$40 drug card, which has changed from a \$10/\$20 drug card.

The significant increase in operating transfers related to the assets constructed for the Acacia Drain Project being transferred to the business-type activities.

Business-type Activities

The Village's business type activities consist of the Water and Sewer Fund. Water and sewer services are provided to residents through contracts or consortiums with Detroit Water and Sewerage Department. Our water usage decreased 12.19 percent from the previous fiscal year. In addition, the Village's water loss increased to 9.58 percent. These two factors were offset by rate increases implemented during the year, resulting in \$760,389 of operating income.

The Village's Funds

The analysis of the Village's major funds begins on page 11 following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds – not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as special tax millages. The Village's major funds include the General Fund, Major Streets, Local Streets, Coryell/Hummel SAD and Capital Projects infrastructure fund.

The General Fund pays for most of the Village's governmental services. The Public Safety Department represents the largest cost group, which incurred expenses of approximately \$3,707,000 in fiscal year 2003-2004.

The Capital Projects Infrastructure Fund fund balance decreased significantly in the current year due to the construction of the Acacia Drain Project. The assets related to this project were then contributed to the Enterprise Fund.

Village of Beverly Hills, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The most significant change was to increase capital spending for the Public Safety parking lot paving and fund personnel costs funds (e.g., sick leave fund, vacation fund). Village departments overall stayed below budget, resulting in total expenditures \$49,650 below budget. This, coupled with increased revenue from SOCRRRA, allowed the General Fund's fund balance to increase by \$14,069 instead of decreasing by the \$91,147 that was appropriated.

Capital Asset and Debt Administration

At June 30, 2004, the Village had \$24,947,473 invested in a broad range of capital assets, including buildings, furniture, equipment, roads and bridges, and water and sewer mains (see Note 5 for detail). During the current year, the Village added approximately \$4,779,000 of additional capital assets. The most significant additions related to the Acacia Drain Project additions of \$3,175,019 that were funded by a combination of property tax revenues and contributions from other local governments.

The Village secured a \$3,690,000 bond from the Drinking Water Revolving Fund (DWRP) to fund the water main replacement project. The bonds have been recorded as a liability in the Business-type Activities and the corresponding deposits at the State of Michigan as restricted assets. The construction project will begin in the fall of 2004 and is expected to be completed in the fall of 2005.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for next year will increase by 3.22 percent from the amended budget for 2003/2004. Property taxes are expected to increase at 2.72 percent. State Revenue Sharing is projected to decrease by \$20,173 or 2 percent. In addition, the contribution from fund balance is expected to increase from \$91,147 to \$231,430.

Water and sewer rates are also expected to increase. Water rates are budgeted to increase by 8 percent and sewer rates also by 8 percent.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Village of Beverly Hills, Michigan

Statement of Net Assets June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 4,987,582	\$ 1,780,653	\$ 6,768,235
Receivables - Net (Note 4)	759,054	1,052,038	1,811,092
Inventories	-	9,012	9,012
Prepaid costs and other assets	165,843	-	165,843
Restricted assets (Note 8)	224,844	3,336,525	3,561,369
Nondepreciable capital assets (Note 5)	209,937	4,678,679	4,888,616
Depreciable capital assets - Net (Note 5)	8,243,367	11,815,490	20,058,857
Total assets	14,590,627	22,672,397	37,263,024
Liabilities			
Accounts payable	173,014	186,091	359,105
Accrued and other liabilities	296,666	13,226	309,892
Liabilities to be paid from restricted assets	224,844	-	224,844
Due to other governmental units	70,985	-	70,985
Noncurrent liabilities (Note 7):			
Due within one year	224,427	598,846	823,273
Due in more than one year	422,421	8,575,658	8,998,079
Total liabilities	1,412,357	9,373,821	10,786,178
Net Assets			
Invested in capital assets - Net of related debt	8,158,304	10,656,190	18,814,494
Restricted:			
Streets and highways	1,345,551	-	1,345,551
Capital projects	693,153	-	693,153
Drug forfeiture	10,436	-	10,436
Unrestricted	2,970,826	2,642,386	5,613,212
Total net assets	<u>\$ 13,178,270</u>	<u>\$ 13,298,576</u>	<u>\$ 26,476,846</u>

Village of Beverly Hills, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 955,000	\$ 65,784	\$ 40,543	\$ -
Public safety	3,358,943	130,067	9,858	-
Public works	1,991,667	255,796	674,343	1,032,766
Community and economic development	183,780	-	-	-
Library	474,397	-	-	-
Total governmental activities	6,963,787	451,647	724,744	1,032,766
Business-type activities - Water and sewer	2,296,099	2,892,494	-	-
Total primary government - Governmental activities	<u>\$ 9,259,886</u>	<u>\$ 3,344,141</u>	<u>\$ 724,744</u>	<u>\$ 1,032,766</u>

General revenues:

Property taxes and related fees

State-shared revenues

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (848,673)	\$ -	\$ (848,673)
(3,219,018)	-	(3,219,018)
(28,762)	-	(28,762)
(183,780)	-	(183,780)
(474,397)	-	(474,397)
(4,754,630)	-	(4,754,630)
-	596,395	596,395
(4,754,630)	596,395	(4,158,235)
5,881,036	405,048	6,286,084
887,204	-	887,204
143,110	3,330	146,440
123,225	-	123,225
(3,166,019)	3,166,019	-
3,868,556	3,574,397	7,442,953
(886,074)	4,170,792	3,284,718
14,064,344	9,127,784	23,192,128
<u>\$ 13,178,270</u>	<u>\$ 13,298,576</u>	<u>\$ 26,476,846</u>

Village of Beverly Hills, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General	Major Streets	Local Streets	Coryell/ Hummel SAD	Capital Projects Infrastructure	Other Non- major Governmental Funds	Total Governmental Funds
Assets							
Cash and investments	\$ 1,653,714	\$ 651,685	\$ 530,955	\$ 93,510	\$ 168,992	\$ 1,888,726	\$ 4,987,582
Receivables - Net	225,814	38,220	18,431	170,582	96	138,504	591,647
Due from other funds	-	-	166,647	-	-	-	166,647
Prepaid costs and other assets	117,822	-	-	-	-	-	117,822
Restricted assets	-	-	-	701	224,143	-	224,844
Total assets	<u>\$ 1,997,350</u>	<u>\$ 689,905</u>	<u>\$ 716,033</u>	<u>\$ 264,793</u>	<u>\$ 393,231</u>	<u>\$ 2,027,230</u>	<u>\$ 6,088,542</u>
Liabilities and Fund Balances (Deficit)							
Liabilities							
Accounts payable	\$ 102,394	\$ 10,884	\$ 13,592	\$ 9,299	\$ 25,372	\$ 11,475	\$ 173,016
Accrued and other liabilities	125,385	35,761	150	-	-	-	161,296
Liabilities to be paid from restricted assets	-	-	-	701	224,143	-	224,844
Due to other governmental units	70,985	-	-	-	-	-	70,985
Due to other funds	-	-	-	-	-	166,647	166,647
Deferred revenue	-	-	-	165,485	-	138,211	303,696
Other liabilities	81,167	-	-	-	-	-	81,167
Total liabilities	379,931	46,645	13,742	175,485	249,515	316,333	1,181,651
Fund Balances (Deficit)							
Reserved for capital projects	-	-	-	89,308	143,716	460,129	693,153
Unreserved - Reported in:							
General Fund	1,617,419	-	-	-	-	-	1,617,419
Special Revenue Funds	-	643,260	702,291	-	-	1,353,062	2,698,613
Capital Projects Funds	-	-	-	-	-	(102,294)	(102,294)
Total fund balances (deficit)	<u>1,617,419</u>	<u>643,260</u>	<u>702,291</u>	<u>89,308</u>	<u>143,716</u>	<u>1,710,897</u>	<u>4,906,891</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,997,350</u>	<u>\$ 689,905</u>	<u>\$ 716,033</u>	<u>\$ 264,793</u>	<u>\$ 393,231</u>	<u>\$ 2,027,230</u>	<u>\$ 6,088,542</u>

Village of Beverly Hills, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2004

Fund Balance - Total Governmental Funds \$ 4,906,891

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	8,453,304
The funds defer recognition of revenue on any amounts not collected within two months of the end of the year	303,696
State-shared revenue receivable is not reported in the funds unless it is collected soon after the end of the year	167,406
The funds do not report bond indebtedness as a liability until it comes due for payment	(295,000)
Employee compensated absences are not due and payable in the current period and are not reported in the funds	(351,848)
Employee pension liabilities are not due and payable in the in the current period and are not reported in the funds	(54,203)
Amounts on deposit with the Insurance Authority (MMRMA) are not reported as fund assets	<u>48,024</u>

Net Assets - Governmental Activities \$ 13,178,270

Village of Beverly Hills, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General	Major Streets	Local Streets	Coryell/ Hummel SAD	Capital Projects Infrastructure	Other Non- major Governmental Funds	Total Governmental Funds
Revenue							
Property taxes and related fees	\$ 4,428,868	\$ -	\$ 447,139	\$ -	\$ 888,645	\$ 116,384	\$ 5,881,036
Licenses and permits	215,359	-	-	-	-	-	215,359
Federal grants	40,946	-	-	66,860	-	46,517	154,323
State-shared revenues and grants	892,621	444,549	217,170	-	-	19,900	1,574,240
Special assessment	-	-	-	92,702	-	15,089	107,791
Contributions	-	-	-	-	769,134	-	769,134
Charges for services	208,361	-	-	-	-	404,228	612,589
Fines and forfeitures	63,506	-	-	-	-	9,763	73,269
Interest and rentals	30,911	6,251	6,373	-	14,253	107,473	165,261
Other	199,143	28,638	-	-	-	1,000	228,781
Total revenue	6,079,715	479,438	670,682	159,562	1,672,032	720,354	9,781,783
Expenditures							
Current:							
General government	778,467	-	-	-	-	348,709	1,127,176
Public safety	3,707,066	-	-	-	-	6,620	3,713,686
Public works	963,851	402,097	701,044	61,920	-	-	2,128,912
Library	474,397	-	-	-	-	-	474,397
Interest	-	-	-	-	-	-	-
Capital outlay	54,804	-	-	-	3,175,019	342,319	3,572,142
Debt service	-	-	-	205,000	-	-	205,000
Total expenditures	5,978,585	402,097	701,044	266,920	3,175,019	697,648	11,221,313
Excess of Revenue Over (Under) Expenditures	101,130	77,341	(30,362)	(107,358)	(1,502,987)	22,706	(1,439,530)
Other Financing Sources (Uses)							
Transfers in	-	-	15,000	-	-	130,205	145,205
Transfers out	(87,061)	-	(49,144)	-	-	-	(136,205)
Total other financing sources (uses)	(87,061)	-	(34,144)	-	-	130,205	9,000
Net Change in Fund Balances	14,069	77,341	(64,506)	(107,358)	(1,502,987)	152,911	(1,430,530)
Fund Balances - Beginning of year	1,603,350	565,919	766,797	196,666	1,646,703	1,557,986	6,337,421
Fund Balances - End of year	\$ 1,617,419	\$ 643,260	\$ 702,291	\$ 89,308	\$ 143,716	\$ 1,710,897	\$ 4,906,891

Village of Beverly Hills, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (1,430,530)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	953,887
Governmental funds do not report loss on the sale of fixed assets	(14,662)
Governmental funds do not report depreciation expense	(512,641)
The funds report revenue as it is collected or available, but the statement of activities reported it in prior years when earned	(19,900)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	45,510
Principal payments on bonds are recorded as expenditures in the fund based statements	205,000
Increase in accumulated employee sick and vacation pay, employee pension liability, as well as estimated general liability claims, are recorded when earned in the statement of activities	<u>(112,738)</u>

Change in Net Assets of Governmental Activities \$ **(886,074)**

Village of Beverly Hills, Michigan

Enterprise Fund - Water and Sewer Statement of Net Assets June 30, 2004

Assets

Current assets:

Cash and cash equivalents	\$ 1,780,653
Restricted assets	3,336,525
Receivables - Net	1,052,038
Inventories	<u>9,012</u>

Total current assets 6,178,228

Noncurrent assets:

Nondepreciable capital assets	4,678,679
Depreciable capital assets - Net	<u>11,815,490</u>

Total noncurrent assets 16,494,169

Total assets 22,672,397

Liabilities

Current liabilities:

Accounts payable	186,091
Accrued and other liabilities	13,226
Current portion of long-term debt	<u>598,846</u>

Total current liabilities 798,163

Noncurrent liabilities - Long-term debt - Net of current portion 8,575,658

Total liabilities 9,373,821

Net Assets

Investment in capital assets - Net of related debt	10,656,190
Unrestricted	<u>2,642,386</u>

Total net assets \$ 13,298,576

Village of Beverly Hills, Michigan

Enterprise Fund - Water and Sewer Statement of Revenue, Expenditures, and Changes in Net Assets Year Ended June 30, 2004

Operating Revenue

Sale of water	\$ 883,634
Sewage disposal charges	1,824,281
Interest and penalty charges	71,970
Meter charge	100,254
Rental income and other	12,355

Total operating revenue 2,892,494

Operating Expenses

Cost of water produced/purchased	539,916
Cost of sewage treatment	807,191
Administration charge	150,000
Repairs and maintenance	168,403
Depreciation	346,940
Other expenses	119,655

Total operating expenses 2,132,105

Operating Income 760,389

Nonoperating Revenue (Expense)

Investment income	3,330
Property taxes	405,048
Interest expense	(163,994)

Total nonoperating revenue 244,384

Net Income - Before transfers and contributions 1,004,773

Transfers to Other Funds (9,000)

Capital Contributions - Assets constructed by Capital Projects Infrastructure Fund 3,175,019

Increase in Net Assets 4,170,792

Net Assets - Beginning of year 9,127,784

Net Assets - End of year \$ 13,298,576

Village of Beverly Hills, Michigan

Enterprise Funds - Water and Sewer Statement of Cash Flows Year Ended June 30, 2004

Cash Flows from Operating Activities

Receipts from customers	\$ 2,865,617
Payments to suppliers	(1,665,863)
Internal activity - Payments to other funds	(150,000)
Other payments	<u>(457,467)</u>

Net cash provided by operating activities 592,287

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(239,247)
Proceeds from property tax levy	405,048
Principal and interest paid on capital debt	<u>(545,456)</u>

Net cash used in capital and related financing activities (379,655)

Cash Flows from Noncapital Financing Activities - Transfers out (9,000)

Cash Flows from Investing Activities - Interest received on investments 3,330

Net Increase in Cash and Cash Equivalents 206,962

Cash and Cash Equivalents - Beginning of year 1,573,691

Cash and Cash Equivalents - End of year \$ 1,780,653

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 760,389
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	346,940
Changes in assets and liabilities:	
Receivables	(377,228)
Other assets	12,590
Accounts payable	(150,354)
Accrued and other liabilities	<u>(50)</u>

Net cash provided by operating activities \$ 592,287

Noncash Capital and Related Financing Activities - During the current year, \$3,175,019 of sewer line additions were funded by a Capital Projects Fund. The sewer line additions were recorded as a fixed asset addition within the Enterprise Fund. In addition, the Village received a Drinking Water Revolving Fund loan for water main replacements in the amount of \$3,690,000. The loan will be drawn as expenditures are incurred. The loan was recorded as a liability and undrawn proceeds as restricted assets within the enterprise fund.

The Notes to Financial Statements are an
Integral Part of this Statement.

Village of Beverly Hills, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefits	Agency Fund
Assets		
Cash and cash equivalents	\$ -	\$ 9,794
Investments in mutual funds	13,488,350	-
Accrued interest receivable	3,662	7
Total assets	13,492,012	9,801
Liabilities - Accrued and other liabilities	-	\$ 9,801
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 13,492,012</u></u>	

Village of Beverly Hills, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefits
Additions - Investment income	
Interest and dividends	\$ 254,831
Net increase in fair value of investments	<u>1,462,803</u>
Net investment income	1,717,634
Deductions	
Benefit payments	(591,856)
Administrative expenses	<u>3,710</u>
Total deductions	<u>(588,146)</u>
Net Increase	1,129,488
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>12,362,524</u>
End of year	<u>\$ 13,492,012</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village of Beverly Hills (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Beverly Hills:

Reporting Entity

The Village of Beverly Hills is governed by an elected seven-member council. There are no component units for which the Village is considered to be financially accountable.

Jointly Governed Organizations

Jointly governed organizations are discussed in Note 12.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the Enterprise Fund are reported as separate columns in the fund financial statements.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within two months of the end of the current fiscal period (through August 31). The following major revenue sources meet the availability criterion: State-shared revenue, State gas and weight tax revenue, District Court fines and interest associated with the current fiscal period. Conversely, federal grant reimbursements and special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.
- The Local Streets Fund accounts for the resources of State gas and weight tax revenue that are restricted for use on local streets.
- The Capital Projects – Coryell/Hummel Special Assessment District Fund accounts for the special assessment taxes collected for specific construction projects.
- The Capital Projects – Infrastructure Millage Fund accounts for the resources of property taxes collected for construction of the Acacia Interceptor.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The Village reports one proprietary fund. The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the Village reports the following fund types:

- The Pension and Other Employee Benefits Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Agency Fund accounts for assets held on behalf of third parties.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". All trade and property tax receivables are considered to be fully collectible.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets in the Capital Projects Infrastructure Fund pertain to the accumulated retainage on the Acacia Drain project in accordance with the contract terms. Restricted assets in the Enterprise Fund pertain to Drinking Water Revolving Fund proceeds not yet drawn down.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements other than buildings	50 years
Furniture and equipment	5-10 years
Vehicles	5 years
Infrastructure (excludes water mains and sewers)	10-50 years
Water mains and sewers	50 years
Meters	20 years

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Property Taxes - The Village's property tax is levied on each July 1 on the taxable valuation of the property (as defined by State statutes) located in the Village as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The Village's ad valorem tax is levied on July 1, 2003 and recognized as revenue for the June 30, 2004 budget year. The Village's property taxes were levied in the following manner:

2003 taxable valuation		<u>\$ 494,040,639</u>
		Revenues
	Mills Levied	Generated
Operating	8.9159	\$ 4,404,817
Operating - Local Street Fund	0.8916	440,487
Debt service	0.8191	404,669
Dedicated (infrastructure)	1.7967	887,643
Park	0.2355	116,347
Total	<u>12.6588</u>	<u>\$ 6,253,962</u>

These amounts are recognized in the respective General, Local Streets, Capital Projects, and Enterprise Funds financial statements as taxes receivable or tax revenue. Governmental funds recognize tax revenue in the year it is budgeted, to the extent it is collected within 60 days. Personal property taxes that are still unpaid as of June 30, 2004 will be recognized as revenue in the future as they are collected.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget process begins in January when each department head calculates their appropriation request. This is due by the first Monday in March. The budget is submitted to the Village Council at the first meeting in April. During the next month, the Village Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than the second Monday in May.

The budget has been prepared in accordance with generally accepted accounting principles, except that operating transfers have been included in the revenue and expenditures categories, rather than as "other financing sources". The budget document presents information by fund, function, department, and line items. The level of budgetary control adopted by the Village Council is at the department level. If any department exceeds budget appropriations, the Village Council may, by resolution, amend the department's appropriation.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village of Beverly Hills incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
Public Safety: Police and Fire	\$ 3,305,804	\$ 3,362,578

Expenditures for Public Safety exceeded budget as a result of an increase in actual compensated absences expense over the estimate calculation.

Fund Deficits - The Stafford Special Assessment District Fund has a deficit at June 30, 2004 that will be funded through future collections of special assessments and county contributions.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The Village oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2003	\$ (132,886)
Current year building permit revenue	218,947
Related expenses:	
Direct costs	\$ 235,226
Estimated indirect costs	<u>10,038</u>
Less total construction code expenses	<u>(245,264)</u>
Cumulative shortfall at June 30, 2004	<u><u>\$ (159,203)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated nine banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in the instruments approved by the State statutory authority as listed above.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The Pension Trust Fund is also authorized by Michigan Public Act 55 of 1982 (as amended) to invest in certain reverse repurchase agreements, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Village of Beverly Hills' deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Fund	Total Primary Government
Cash and cash equivalents	\$ 1,815,195	\$ 723,813	\$ 9,794	\$ 2,548,802
Investments	3,172,387	1,056,840	13,488,350	17,717,577
Restricted assets	224,844	-	-	224,844
Total	<u>\$ 5,212,426</u>	<u>\$ 1,780,653</u>	<u>\$ 13,498,144</u>	<u>\$ 20,491,223</u>

The breakdown between deposits and investments for Governmental Accounting Standards Board Statement No. 3 is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,489,430
Investments in bank investment pools, interlocal agreement pool, and mutual funds	17,001,093
Petty cash or cash on hand	700
Total	<u>\$ 20,491,223</u>

The bank balance of the Village's deposits is \$3,491,746, of which approximately \$1,100,000 is covered by federal depository insurance.

The Village's investments during the year consisted solely of bank investment pools, an interlocal agreement investment pool, and mutual funds. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares. Investments are normally categorized to give an indication of the level of risk assumed by the Village; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Village believes that the investments in these funds comply with the investment authority noted above.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Receivables

Receivables as of year end for the Village's individual major funds are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Special Assessment District	Dedicated Millage	Nonmajor and Other Funds	Total Governmental	Business - type Activities
Receivables:								
Taxes	\$ 11,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,194	\$ -
Special assessment	-	-	-	170,519	-	39,231	209,750	-
Intergovernmental	168,342	37,771	17,850	-	-	98,980	322,943	353,475
Customer billings	-	-	-	-	-	-	-	549,085
Interest and other	213,685	449	581	63	96	293	215,167	149,478
Total receivables	<u>\$ 393,221</u>	<u>\$ 38,220</u>	<u>\$ 18,431</u>	<u>\$ 170,582</u>	<u>\$ 96</u>	<u>\$ 138,504</u>	<u>\$ 759,054</u>	<u>\$ 1,052,038</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Special assessments	\$ 204,716
Grant reimbursements not available in the current period	98,980
Total	<u>\$ 303,696</u>

There was no unearned deferred revenue as of June 30, 2004.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated - Land	\$ 209,937	\$ -	\$ -	\$ 209,937
Capital assets being depreciated:				
Buildings	2,256,698	-	-	2,256,698
Improvements other than buildings	708,529	40,904	-	749,433
Infrastructure (excludes water mains and sewers)	6,867,243	793,060	-	7,660,303
Furniture and equipment	1,869,651	119,923	57,080	1,932,494
Subtotal	11,702,121	953,887	57,080	12,598,928
Accumulated depreciation:				
Buildings	776,634	46,196	-	822,830
Improvements other than buildings	69,026	50,803	-	119,829
Infrastructure (excludes water mains and sewers)	1,870,192	281,282	-	2,151,474
Furniture and equipment	1,169,485	134,361	42,418	1,261,428
Subtotal	3,885,337	512,642	42,418	4,355,561
Net capital assets being depreciated	7,816,784	441,245	14,662	8,243,367
Net capital assets	<u>\$ 8,026,721</u>	<u>\$ 441,245</u>	<u>\$ 14,662</u>	<u>\$ 8,453,304</u>
 Business-type Activities				
Capital assets not being depreciated -				
Construction in progress	\$ 1,150,183	\$ 3,528,496	\$ -	\$ 4,678,679
Capital assets being depreciated:				
Water mains	2,696,626	230,670	-	2,927,296
Sanitary sewers	11,731,619	-	-	11,731,619
Meters	504,078	8,577	-	512,655
Service buildings	42,163	-	-	42,163
Motor vehicles	83,552	-	-	83,552
Furniture and equipment	139,104	-	-	139,104
Subtotal	15,197,142	239,247	-	15,436,389
Accumulated depreciation:				
Water mains	448,430	31,580	-	480,010
Sanitary sewers	2,210,780	295,614	-	2,506,394
Meters	367,217	12,918	-	380,135
Service buildings	42,163	-	-	42,163
Motor vehicles	66,418	4,376	-	70,794
Furniture and equipment	138,951	2,452	-	141,403
Subtotal	3,273,959	346,940	-	3,620,899
Net capital assets being depreciated	11,923,183	(107,693)	-	11,815,490
Net capital assets	<u>\$ 13,073,366</u>	<u>\$ 3,420,803</u>	<u>\$ -</u>	<u>\$ 16,494,169</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 44,882
Public safety	186,477
Public works	<u>281,283</u>

Total governmental activities	<u>\$ 512,642</u>
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Business-type activities - Water and Sewer Fund	\$ 346,940
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Construction Commitments - The Village has active construction projects at year end. The projects include the CSO Drain, Series 1994A, 1999, and 2003 bond issues for the Acacia Park Drain Relief Sewer project. At year end, the Village's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Acacia Park Drain Relief Sewer	\$ 2,068,301	\$ 1,070,219

Note 6 - Interfund Receivables, Payables, and Transfers

The Village had the following interfund receivables or payables at June 30, 2004:

Interfund Balances

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Local Streets Fund (Major Fund)	Other governmental funds (Nonmajor Fund)	<u>\$ 166,647</u>
Total		<u>\$ 166,647</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out			
	General Fund	Local Streets Fund	Business-type Activities	Total
Transfers in:				
Local Streets Fund	\$ 15,000	\$ -	\$ -	\$ 15,000
Nonmajor governmental funds	72,061	49,144	9,000	130,205
Total	<u>\$ 87,061</u>	<u>\$ 49,144</u>	<u>\$ 9,000</u>	<u>\$ 145,205</u>

General Fund transfers were used for infrastructure and other capital improvements. Transfer from Local Street Fund was for infrastructure additions in the Special Assessment District. Transfer to other governmental funds was used to reimburse the Capital Projects Fund for improvements related to business-type assets.

Note 7 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

The Village's special assessment limited tax bonds issued in February 2003 call for any prepayments of special assessments to be accumulated and applied each October to pay down the bond principal. This mechanism is intended to save the Village interest expense on these bonds, which is at a higher rate than the Village is likely to earn on the investment of these prepayments.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance July 1, 2003	Additions (Reductions)	Ending Balance June 30, 2004	Due Within One Year
Governmental activities:				
2003 Special Assessment Limited Tax Bonds maturing through October 2012 with interest at 5%	\$ 500,000	\$ (205,000)	\$ 295,000	\$ 55,000
Accumulated employee compensation	337,222	14,626	351,848	169,427
Total governmental activities	<u>\$ 837,222</u>	<u>\$ (190,374)</u>	<u>\$ 646,848</u>	<u>\$ 224,427</u>
Business-type activities:				
1990 Evergreen/Farmington Sewage System Bonds, maturing through October 2009 with interest at 7%	\$ 483,621	\$ (53,268)	\$ 430,353	\$ 51,867
1991 Evergreen/Farmington Permanent Meter and Interceptor Rehab Bonds, maturing through April 2010 with interest at 2.628%	56,496	(6,964)	49,532	8,147
1997 John Garfield Drain Bonds, maturing through November 2017 with interest ranging from 3.87% to 4.97%	84,230	(3,673)	80,557	3,936
1998 North Arm Relief Drain Contract with City of Royal Oak (to support the Village's portion of Royal Oak bonds), maturing through September 2020 with interest at 2.25%	367,143	(49,076)	318,067	15,477
2000 George W. Kuhn Drain Bond Series A, maturing through April 2022 with interest at 2.5%	139,538	(5,807)	133,731	5,970
2000 George W. Kuhn Drain Bond Series B, maturing through April 2022 with interest ranging from 4.75% to 5.375%	50,623	(1,624)	48,999	1,827
2001 George W. Kuhn Drain Bond Series C, maturing through April 2024 with interest at 2.5%	667,640	-	667,640	26,153
2001 George W. Kuhn Drain Bond Series D, maturing through April 2024 with interest at 2.5%	25,747	-	25,747	1,015
2001 George W. Kuhn Drain Bond Series E, maturing through April 2024 with interest ranging from 4% to 5.25%	80,166	-	80,166	2,843
1994 CSO Drain Bonds - Series 1994A, maturing through October 2015 with interest at 2%	726,752	(51,120)	675,632	54,528

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

	Beginning Balance July 1, 2003	Additions (Reductions)	Ending Balance June 30, 2004	Due Within One Year
1994 CSO Drain Bonds - Series 1994B, maturing through October 2015 with interest ranging from 4% to 6%	\$ 460,080	\$ (460,080)	\$ -	\$ -
1995 CSO Drain Bonds - Series 1995C, maturing through October 2015 with interest ranging from 5.375% to 8%	2,317,440	(2,317,440)	-	-
1999 CSO Drain Bonds - Series 1999, maturing through October 2015 with interest ranging from 3.5% to 4.6%	426,000	(34,080)	391,920	34,080
2003 CSO Drain Refunding Bonds - Series 2003 maturing through October 2014 with interest ranging from 1% to 3%	-	2,733,216	2,733,216	54,528
2003 Drinking Water Revolving Fund Loan, maturing through April 2025 with interest at 2.125%	-	3,690,000	3,690,000	353,475
Subtotal business-type activities	<u>\$ 5,885,476</u>	<u>\$ 3,440,084</u>	9,325,560	613,846
Less deferred charge on refunding of bonds*			<u>(151,056)</u>	<u>(15,000)</u>
Total business-type activities			<u>\$ 9,174,504</u>	<u>\$ 598,846</u>

* During 2001, Oakland County refinanced the 1990 Evergreen/Farmington bond issue. In addition, during 2004, Oakland County refinanced the 1994B and 1995C CSO Drain Bond issues. With the refinancing of both these issues, Oakland County included bond issuance costs in the new principal amount. The Village of Beverly Hills has an agreement with Oakland County to pay a portion of these bonds. The deferred charge referred to above represents the Village's portion of these costs, net of amortized expenses of \$8,364 and \$12,212, respectively, at June 30, 2004.

Annual debt service requirements to maturity for the above obligations (excluding employee benefits) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 55,000	\$ 13,375	\$ 68,375	\$ 393,282	\$ 76,726	\$ 470,008
2006	55,000	10,625	65,625	578,002	143,608	721,610
2007	55,000	7,875	62,875	593,279	130,449	723,728
2008	55,000	5,125	60,125	625,830	116,070	741,900
2009	50,000	2,500	52,500	636,402	169,798	806,200
2010-2014	25,000	625	25,625	3,187,098	615,661	3,802,759
2015-2019	-	-	-	1,722,431	285,633	2,008,064
2020-2024	-	-	-	1,364,236	133,247	1,497,483
2025-2028	-	-	-	225,000	29,113	254,113
Total	<u>\$ 295,000</u>	<u>\$ 40,125</u>	<u>\$ 335,125</u>	<u>\$ 9,325,560</u>	<u>\$ 1,700,305</u>	<u>\$ 11,025,865</u>

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Restricted Assets

Restricted assets at June 30, 2004 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Construction retainage and related interest	\$ 224,844	\$ -	\$ 224,844
Drinking Water Revolving Fund proceeds	-	3,336,525	3,336,525
	<u>\$ 224,844</u>	<u>\$ 3,336,525</u>	<u>\$ 3,561,369</u>

The amount related to Drinking Water Revolving Fund proceeds relates to amounts not yet drawn down. Since the restricted assets result from the issuance of debt, retained earnings have not been reserved.

Note 9 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Workers' Compensation for claims relating to workers' compensation and the Michigan Municipal Risk Management Authority for general liability claims.

The Michigan Municipal Risk Management Authority (the "Authority") operates as a claims-servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Authority assists the Village in estimating claims for additional liabilities that may be paid beyond the balance sheet date. It is estimated that any such claims are insignificant for each of the last two years. Therefore, no liability has been recorded.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Other Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, there are approximately 26 retirees receiving benefits. All activity related to the funding of these benefits is recorded in the Retiree Health Care Fund. Expenses are accrued based on the actuary valuation. Current year expenditures were approximately \$310,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2008.

Note 11 - Pension Plans

Public Safety Officers' Retirement System

Plan Description - The Village of Beverly Hills Public Safety Officers' Retirement System (the "Plan") is a single-employer defined benefit pension plan that is administered by a Board of Trustees consisting of the Village president, a Village council member, a citizen, and two public safety officers. The Plan covers all full-time public safety employees of the Village. The Plan provides retirement, disability, and death benefits to Plan members and their beneficiaries. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 21 retirees and beneficiaries currently receiving benefits, terminated employees entitled to benefits but not yet receiving them, and 24 current active employees. The Plan does not issue a separate financial report.

Contributions - As of July 1, 1976, the Plan was amended to make it a non-contributory plan by eliminating required employee contributions. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The obligation to contribute to and maintain the Plan for these employees was established by negotiation with the Village's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 11 - Pension Plans (Continued)

Annual Pension Cost - For the year ended June 30, 2004, the December 31, 2002 actuarial valuation using the entry age actuarial cost method indicated the Village should contribute \$54,203 to the Plan. The Village has recorded a liability for this amount, as a contribution was not made during the year ended June 30, 2004. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 4 percent to 8 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ -	\$ -	\$ 54,203
Percentage of APC contributed	0%	0%	0%
Net pension obligation	\$ -	\$ -	\$ 54,203

	Actuarial Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 15,552,966	\$ 13,901,849	\$ 14,001,713
Actuarial accrued liability (AAL) (entry age)	\$ 10,872,201	\$ 11,662,739	\$ 12,067,589
Unfunded AAL (UAAL)	\$ (4,680,765)	\$ (2,239,110)	\$ (1,934,124)
Funded ratio	143%	119%	116%
Covered payroll	\$ 1,497,827	\$ 1,591,343	\$ 1,566,002
UAAL as a percentage of covered payroll	- %	- %	- %

Note 11 - Pension Plans (Continued)

MMERS Retirement System

Plan Description - The Village participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers the administrative staff except for the Village manager. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the Village's competitive bargaining units and does not require a contribution from the employees.

Annual Pension Cost - For the year ended June 30, 2004, the Village's annual pension cost of approximately \$55,000 for the MMERS was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 11 - Pension Plans (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 57,105	\$ 48,633	\$ 55,166
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2001	2002	2003
Actuarial value of assets	\$ 1,698,368	\$ 1,774,331	\$ 1,922,618
Actuarial accrued liability (AAL)			
(entry age)	\$ 1,700,038	\$ 1,842,653	\$ 2,001,073
Unfunded AAL (UAAL)	\$ 1,670	\$ 68,322	\$ 78,455
Funded ratio	100%	96%	96%
Covered payroll	\$ 600,052	\$ 619,556	\$ 631,209
UAAL as a percentage of covered payroll	- %	11%	12%

Note 12 - Joint Ventures

Birmingham Area Cablecasting Board

The Village is a member of the Birmingham Area Cablecasting Board (BACB), which provides cable program-coordinating services to the residents of Birmingham, Beverly Hills, and Franklin Village. The Village's equity interest in the joint venture is insignificant. The Village is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the BACB can be obtained from the administrative offices at P.O. Box 165, Birmingham, MI 48012.

Village of Beverly Hills, Michigan

Notes to Financial Statements June 30, 2004

Note 12 - Joint Ventures (Continued)

Southeastern Oakland County Water Authority

The Village is a member of the Southeastern Oakland County Water Authority (the "Water Authority"), which provides a water supply system serving 11 member municipalities in Oakland County. The Village appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2004, the Village expensed \$536,154 of payments made to the Water Authority. The Village has no explicit and measurable equity interest in the joint venture. The Southeastern Oakland County Water Authority's operations are financially independent of the Village. The Village is unaware of any circumstances that would cause an additional financial benefit or burden to the participating governments in the near future. The Southeastern Oakland County Water Authority has a debt issue, with a total balance outstanding as of June 30, 2004 of \$6,980,000, of which the Village has guaranteed approximately \$314,000. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Required Supplemental Information

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues:				
Tax collection, State revenue, etc.	\$ 5,929,852	\$ 6,024,149	\$ 6,079,715	\$ 55,566
Fund balance appropriated	49,797	91,147	-	-
Total revenues	5,979,649	6,115,296	6,079,715	55,566
Expenditures:				
Village council	54,876	54,436	46,920	7,516
Manager	274,523	271,573	269,197	2,376
Finance director	217,622	217,282	201,651	15,631
Buildings and grounds	40,446	44,446	40,150	4,296
General government	209,148	237,974	220,549	17,425
Public safety:				
Police and fire	3,296,341	3,305,804	3,362,578	(56,774)
School liaison office	96,244	96,244	95,318	926
Building and planning	273,512	266,362	249,170	17,192
Public services	804,316	871,876	870,379	1,497
Community action programs	80,532	106,110	93,472	12,638
Library	482,189	475,189	474,397	792
Capital purchases	134,900	79,900	54,804	25,096
Transfers out	15,000	88,100	87,061	1,039
Total charges to appropriations	\$ 5,979,649	\$ 6,115,296	\$ 6,065,646	\$ 49,650
Fund Balance - Beginning of year	\$ 1,453,130	\$ 1,603,350	\$ 1,603,350	\$ -
Fund balance appropriated/shortage	(49,797)	(91,147)	14,069	105,216
Fund Balance - End of year	\$ 1,403,333	\$ 1,512,203	\$ 1,617,419	\$ 105,216

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues	\$ 440,947	\$ 440,947	\$ 479,438	\$ 38,491
Fund balance appropriated	<u>105,310</u>	<u>105,310</u>	<u>-</u>	<u>-</u>
Total revenues and fund balance	546,257	546,257	479,438	38,491
Expenditures	<u>\$ 546,257</u>	<u>\$ 546,257</u>	<u>\$ 402,097</u>	<u>\$ 144,160</u>
Fund Balance - Beginning of year	\$ 565,918	\$ 565,919	\$ 565,919	\$ -
Fund balance appropriated/surplus	<u>(105,310)</u>	<u>(105,310)</u>	<u>77,341</u>	<u>182,651</u>
Fund Balance - End of year	<u>\$ 460,608</u>	<u>\$ 460,609</u>	<u>\$ 643,260</u>	<u>\$ 182,651</u>

Village of Beverly Hills, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget - Favorable (Unfavorable)
Revenues	\$ 731,808	\$ 678,255	\$ 685,682	\$ 7,427
Fund balance appropriated	<u>153,459</u>	<u>212,012</u>	<u>-</u>	<u>-</u>
Total revenues	885,267	890,267	685,682	7,427
Expenditures	<u>\$ 885,267</u>	<u>\$ 890,267</u>	<u>\$ 750,188</u>	<u>\$ 140,079</u>
Fund Balance - Beginning of year	\$ 436,110	\$ 766,797	\$ 766,797	\$ -
Fund balance appropriated/surplus	<u>(153,459)</u>	<u>(212,012)</u>	<u>(64,506)</u>	<u>147,506</u>
Fund Balance - End of year	<u>\$ 282,651</u>	<u>\$ 554,785</u>	<u>\$ 702,291</u>	<u>\$ 147,506</u>

Village of Beverly Hills, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress Public Safety Officers' Retirement System (dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/98	\$ 12,700	\$ 9,200	\$ (3,500)	138	\$ 1,400	-
12/31/99	14,100	9,700	(4,400)	145	1,400	-
12/31/00	15,000	10,200	(4,800)	147	1,400	-
12/31/01	15,600	10,900	(4,700)	143	1,500	-
12/31/02	13,900	11,700	(2,200)	119	1,600	-
12/31/03	14,000	12,000	(2,000)	116	1,600	-

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/98	12/31/96	\$ 39,430	100.0
06/30/99	12/31/97	-	-
06/30/00	12/31/98	-	-
06/30/01	12/31/99	-	-
06/30/02	12/31/00	-	-
06/30/03	12/31/01	-	-

* The required contribution is expressed to the Village as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases*	4% - 8%
*Includes inflation at	4.0%
Cost of living adjustments	None

Other Supplemental Information

Village of Beverly Hills, Michigan

		Special Revenue Funds			
		Drug Forfeiture	Sick Pay Severance	Vacation Reserve Fund	Retiree Health Care
Assets					
Cash and investments		\$ 10,429	\$ 161,456	\$ 196,189	\$ 992,948
Receivables - Net		7	-	-	33
Total assets		<u>\$ 10,436</u>	<u>\$ 161,456</u>	<u>\$ 196,189</u>	<u>\$ 992,981</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable		\$ -	\$ -	\$ -	\$ 8,000
Due to other funds		-	-	-	-
Deferred revenue		-	-	-	-
Total liabilities		-	-	-	8,000
Fund Balances (Deficit)					
Reserved		-	-	-	-
Unreserved		10,436	161,456	196,189	984,981
Total fund balances (deficit)		10,436	161,456	196,189	984,981
Total liabilities and fund balances (deficit)		<u>\$ 10,436</u>	<u>\$ 161,456</u>	<u>\$ 196,189</u>	<u>\$ 992,981</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Capital Projects Funds			Total
Capital Projects Fund	Special Park Millage	Stafford Special Assessment District	Nonmajor Governmental Funds
\$ 324,603	\$ 138,791	\$ 64,310	\$ 1,888,726
117	93	138,254	138,504
\$ 324,720	\$ 138,884	\$ 202,564	\$ 2,027,230
\$ 1,726	\$ 1,749	\$ -	\$ 11,475
-	-	166,647	166,647
-	-	138,211	138,211
1,726	1,749	304,858	316,333
322,994	137,135	-	460,129
-	-	(102,294)	1,250,768
322,994	137,135	(102,294)	1,710,897
\$ 324,720	\$ 138,884	\$ 202,564	\$ 2,027,230

Village of Beverly Hills, Michigan

	Special Revenue Funds			
	Drug Forfeiture	Sick Pay Severance	Vacation Reserve Fund	Retiree Health Care
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	-	-
State grants	-	-	-	-
Special assessment revenue	-	-	-	-
Charges to other funds	-	15,166	30,475	358,587
Fines and forfeitures	9,763	-	-	-
Interest income	95	1,431	1,612	100,759
Other	-	-	-	-
Total revenue	9,858	16,597	32,087	459,346
Expenditures				
Administrative	-	-	14,352	-
Health care	-	-	-	317,693
Police supplies	6,620	-	-	-
Sick leave	-	16,664	-	-
Capital outlay	-	-	-	-
Total expenditures	6,620	16,664	14,352	317,693
Excess of Revenue Over (Under) Expenditures	3,238	(67)	17,735	141,653
Other Financing Sources - Transfers in	-	-	-	-
Net Change in Fund Balances (Deficit)	3,238	(67)	17,735	141,653
Fund Balances - Beginning of year	7,198	161,523	178,454	843,328
Fund Balances (Deficit) - End of year	<u>\$ 10,436</u>	<u>\$ 161,456</u>	<u>\$ 196,189</u>	<u>\$ 984,981</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended June 30, 2004

Capital Projects Funds			Total
Capital Projects Fund	Special Park Millage	Stafford Special Assessment District	Nonmajor Governmental Funds
\$ -	\$ 116,384	\$ -	\$ 116,384
43,472	3,045	-	46,517
19,900	-	-	19,900
-	-	15,089	15,089
-	-	-	404,228
-	-	-	9,763
2,343	1,113	120	107,473
1,000	-	-	1,000
66,715	120,542	15,209	720,354
-	-	-	14,352
-	-	-	317,693
-	-	-	6,620
-	-	-	16,664
134,163	41,509	166,647	342,319
134,163	41,509	166,647	697,648
(67,448)	79,033	(151,438)	22,706
81,061	-	49,144	130,205
13,613	79,033	(102,294)	152,911
309,381	58,102	-	1,557,986
\$ 322,994	\$ 137,135	\$ (102,294)	\$ 1,710,897

September 20, 2004

Members of the Village Council
Village of Beverly Hills
18500 West Thirteen Mile Road
Beverly Hills, MI 48025

Dear Council Members:

We recently completed the audit of the financial statements of the Village of Beverly Hills, Michigan for the year ended June 30, 2004. In addition to the audit report, we offer the following comments for your consideration:

State Shared Revenue

The Village has and will continue to feel the effects of the slowdown in the State's economy. State shared revenue accounts for approximately 15% of the Village's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax, revenue sharing payments continue to decline. Currently, the estimated payments to the Village for the State's 2004/2005 fiscal year includes another reduction to state shared revenue of 2% from fiscal year 2003/2004 levels. For planning purposes, we recommend that the Village continue to carefully monitor its 2004/2005 fiscal year budget in light of these developments. We will continue to update the Village as developments occur.

Major Street Fund Transfers

The Village currently allocates a portion of its operating levy to the Local Streets Fund for infrastructure projects. Given the restrictions on property tax revenue growth due to Proposal A, the Village may consider an alternative method of funding the Local Streets Project. The Act 51 rules allow a transfer of Act 51 monies from the Major Streets Fund to the Local Streets Fund each year. This transfer amount is normally limited to 25% of Act 51 revenues in the Major Streets Fund; however, the amount can be higher than the 25% threshold with Council resolution, containing several required items. We would be pleased to provide Council with a sample resolution regarding the transfer if desired.

Debt Levy

It is our understanding that State law limits the amount of property taxes a municipality can levy, related to voter-approved bonds, to an amount necessary to pay for the next fiscal year's debt service requirements. The amount of property taxes necessary to pay for the next fiscal year's debt service requirements should be determined through consideration of the amount of beginning fund balance, anticipated interest earnings, and the amount of property taxes to be collected, including an estimate of delinquent property taxes.

It appears that the municipality may have exceeded the State's limit based on the amount of fund balance remaining in its debt service fund at the end of the year. This appears to be primarily the result of the refinancing of the bond obligations, which resulted in reduced debt service obligations. It appears that the Village did reduce the debt service levy for the 2004/2005 tax year. We suggest that the Village continue to monitor the situation, taking into account the carryover fund balance and anticipated interest earnings when calculating the millage rate for the upcoming year and reducing the millage rate as necessary.

In addition, there are questions on the Municipal Finance Qualifying Statement that are designed to facilitate the Michigan Department of Treasury in their monitoring of this limit. If the amount of fund balance in these debt service funds exceeds 150% of the next year's principal and interest, you will not qualify to issue municipal obligations without further approval from the State Department of Treasury.

Fixed Asset Tracking

In 2003, the Village implemented GASB 34 requiring the accounting of capital assets of the Village's governmental funds. Properly accounting for fixed asset additions/deletions and depreciation has become increasingly important with the changes resulting from GASB 34. It is our understanding that the Village's current software system for tracking fixed assets may not adequately meet the needs to properly track and segregate assets for the reporting requirement. This has resulted in Village staff spending additional time manually calculating the necessary information for inclusion in the financial statements. We recommend the Village review its current software system related to fixed assets and determine if an upgraded system would provide increased record keeping efficiency and accuracy. Many of our clients have found fixed asset tracking to be one of the most cumbersome requirements of the new model, and we would be pleased to assist the Village in review of different software options.

INTERNAL CONTROL CONSIDERATIONS

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit. Therefore, most of the comments noted below are a result of the additional procedures applied through the implementation of SAS 99.

Vacation Policy – We noted the Village's policy is to limit carryover of vacation to five days, unless specific approval is granted. It appears that this policy has not been applied and employees are permitted to carryover unused vacation days indefinitely. The Village should consider reviewing the policy and determining what level of carryover is appropriate and then revising procedures to ensure the policy is followed.

Procurement – During our testing, we noted that the Village does not have documented policies regarding the various procurement practices. The Village charter requires bids on all items greater than a certain dollar amount; however, it does not identify specific internal control procedures that should be implemented regarding the procurement process. It is our understanding that the Village has various policies related to the procurement process depending on the type of purchase/project. We would encourage the Village to formally document these procedures to ensure they are followed through transition of employees.

Allocation of Departmental Expenses – The Village allocated salaries of certain employees among different departments, as they benefit multiple areas. In the current year, we noted the Village refrained from allocated certain expenses as done in previous years, to avoid budget overruns. We recommend the Village review its allocation process and ensure that the allocations are consistently applied each year. We also recommend the Village include the allocations in its budget process, to ensure unfavorable variances do not occur.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the Village staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC



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